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GOVERNOR DAVIS AND ATTORNEY GENERAL ANNOUNCE EL PASO ENERGY SETTLEMENT FINALIZED 06/26/2003

Agreement Provides More Than $1.45 Billion in Ratepayer Relief;
Total Contract Savings of $6.3 Billion to Date

SACRAMENTO

Governor Gray Davis and Attorney General Bill Lockyer today announced state negotiators have finalized a settlement with El Paso Corporation that will provide $1.45 billion in relief to electricity and gas ratepayers, and help stabilize California's future natural gas supplies. With the agreement announced today, the state has reduced the cost of long term energy contracts by a total of $6.3 billion.

"This is very good news for California ratepayers," said Gov. Davis. "El Paso agreed to pay an unprecedented settlement. This puts in place the rules of the road with real teeth. This is more evidence that the energy crisis was not a California-created problem, but rather market manipulation by the energy pirates that FERC is trying to sweep under the rug."

"I want to congratulate Attorney General Lockyer, the PUC, and the Department of Water Resources for working with me to provide justice to California's ratepayers," Governor Davis continued. "The lawsuits California initiated were the vehicles that ultimately brought ratepayer relief. FERC has done absolutely nothing to help us and a lot to hurt us. Thus far, California has renegotiated $28 billion in energy contracts and saved $6.3 billion in energy costs. Meanwhile, FERC has fought us every step of the way."

The $1.625 billion settlement provides California ratepayers $1.45 billion in benefits, including $1.32 billion in monetary payments and a $125 million savings off the state's long-term energy contract with El Paso. It must be approved by the Federal Energy Regulatory Commission (FERC) and the San Diego County Superior Court.

The settlement is the fifth, and largest, resulting from the Attorney General's ongoing investigation into the California energy crisis of 2000-2001. The five settlements have a combined value of $2.1 billion. They have provided more than $1.64 billion in relief to ratepayers.

[Photos/ Video: Strategic Growth Plan Improves Traffic & Air Quality in Sacramento County]

[Video: Governor Addresses Members of the Sacramento Press Club]

[Photos: Gov's Strategic Growth Plan Benefits Central Valley Roads and Air Quality]

Under the settlement's main terms:

- El Paso will provide to ratepayers $1.5 billion in cash and non-cash consideration. Of that total, $600 million will be paid up front, and $900 million over 15 years to 20 years. The final settlement converts a prior provision to provide $900 million worth of natural gas into the $900 million cash payment. El Paso will have to pay the $900 million over 15 years if the firm achieves investment grade.
- $1.32 billion of the $1.5 billion will be used to reimburse California electricity and natural gas ratepayers. The California Public Utilities Commission (CPUC) will determine how most of the ratepayer reimbursement will be allocated.
- Of the $1.5 billion, El Paso will provide a combined total of approximately $92 million to the states of Oregon, Washington and Nevada.
- El Paso's two, 50 megawatt, long-term power agreements with the California Department of Water Resources (CDWR) will be reduced by $125 million, cutting the cost nearly in half from the original estimated cost of $295 million. This provision will provide ratepayers a $125 million savings. With the El Paso settlement, the state has successfully restructured 32 long-term contracts, providing ratepayers a total savings of more than $6.3 billion.
- El Paso will be prevented from manipulating California gas markets in the future. For the next five years, El Paso will make available to its California delivery points 3,290 million cubic feet per day of firm, primary pipeline capacity. During that period, El Paso generally cannot contract with any of its affiliates - including El Paso Merchant - to provide them capacity on the pipeline system to California. El Paso also has agreed to upgrade one of its pipelines to add delivery capacity into California. The agreement includes an enforcement mechanism should El Paso violate these terms.
- The agreement will assure Pacific Gas & Electric's ability to call on specific reserve capacity from the El Paso system, as conditions require.
- El Paso will institute an antitrust compliance and training program approved by the Attorneys General of California, Washington, Oregon, and Nevada.
- El Paso will fully cooperate with ongoing investigations of other companies and individuals suspected of manipulating the California energy market.
- El Paso will pay the state $2 million from a pool established by the company to provide bonuses to their executives. The $2 million payment reflects Attorney General Lockyer's demand that El Paso executives compensate the state for the personal windfall those executives reaped at California's expense.
- The Attorney General's office will end its investigation of El Paso for violation of antitrust laws. The CPUC also will drop its claim pending before FERC alleging El Paso, by withholding pipeline capacity, cost California ratepayers billions of dollars in artificially inflated natural gas prices. Southern California Edison and Pacific Gas & Electric also were parties to that case, and they will drop their claim as well. Additionally, lawsuits filed by private plaintiffs will be resolved, as will actions brought by the state of Nevada, the City of Long Beach and Los Angeles County.

The final settlement documents are now publicly available on both of the following web sites:

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